

Fairfax County Economic Index

Volume VIII, Number 2

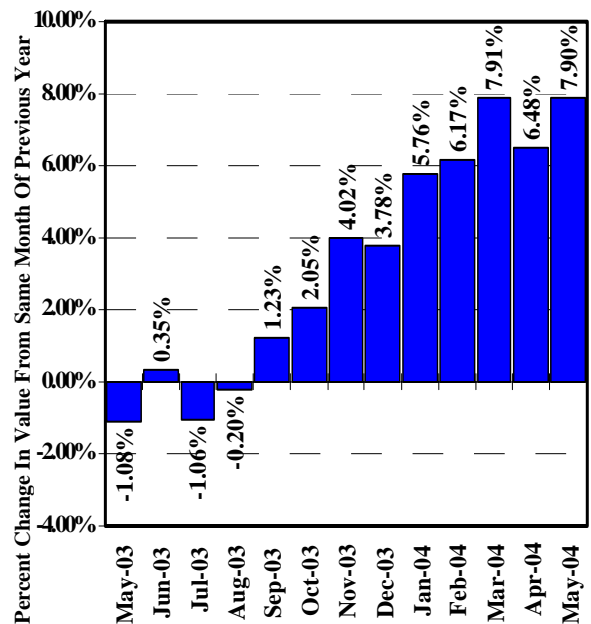
July 2004

Pace of Expansion Moderates in May

The **Fairfax County Coincident Index**, which represents the current state of the County's economy, increased in May to 137.34 for a gain of 0.15 percent following April's revised 0.03 percent decline. On a month-to-month basis, the Index has gained in eight of the last ten months and for the year it is up 7.9 percent. On a monthly over-the-year basis, the Coincident Index has increased for nine consecutive months over last year's same-month values with August 2003 being the last down month. In May, three of the Index's four components were positive.

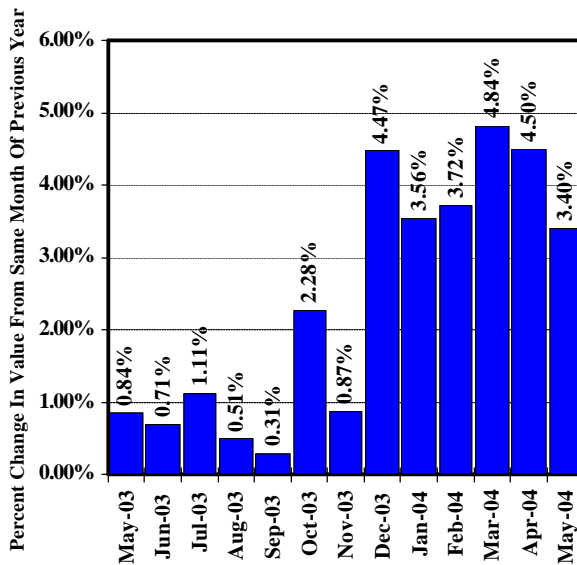
- Total employment grew extending its positive trend to fifteen months;
- Consumer confidence (in the present) was higher for a third month; and,
- Sales tax revenues, adjusted for inflation and seasonal variation, increased after declining in April; while
- Transient occupancy tax collections, adjusted for inflation and seasonal variation, declined sharply in May following a strong upward trend since the beginning of the year.

**Fairfax County Coincident Index
Monthly Over-The-Year Changes**



Source: Center for Regional Analysis, George Mason University

Fairfax County Leading Index Monthly-Over-The-Year Changes



Source: Center for Regional Analysis, George Mason University

The **Fairfax County Leading Index**, which is designed to forecast the performance of the County's economy nine to twelve months in advance, decreased to 107.73 in May for a loss of 0.36 percent. However, compared to May 2003, the Leading Index was up 3.4 percent, a level only slightly below its all-time peak registered in December 1999. The Leading Index has been tracking higher since mid-2003 exceeding its previous year's same-month values for thirteen consecutive months starting in May 2003. This upward trend is clearly visible in the track of its 12-month moving average line. In May, three of the Index's five components contributed to its gain.

- Initial claims for unemployment insurance decreased (improved) in May for the third consecutive month;
- Consumer expectations (consumer confidence six months hence) improved after declining for three months; and
- New automobile registrations were slightly higher following April's sharp drop; while,
- Residential building permits decreased in May following two strong monthly gains; and,
- The total value of residential building permits was down after increasing in both March and April.

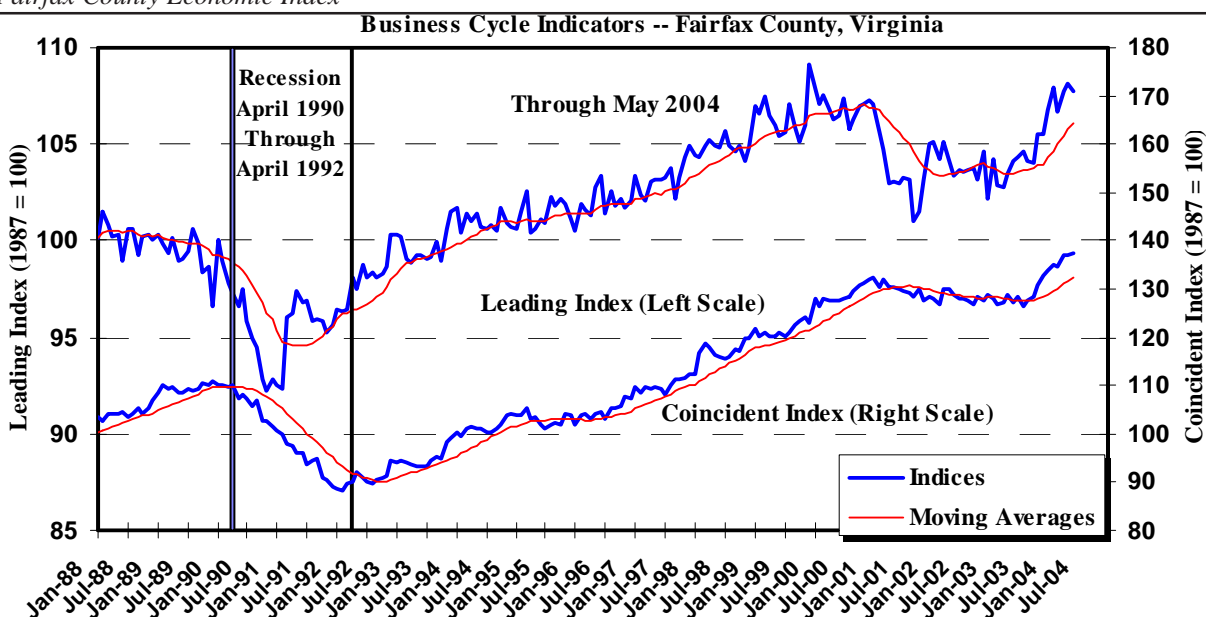
The Fairfax County economy continued to expand in May but at a slightly slower rate than it had in March and April. This slowing was experienced across the national and metropolitan area economies in response to higher energy costs and expectations for higher interest rates. The underlying conditions driving the County's economy remained strong with both job growth and consumer spending growing at high rates. Overall, the Leading Index continued pointing to strong economic growth over the remainder of the year although the slight weakening of national economic conditions could have a moderating effect on the second-half year's performance.

CURRENT CONDITIONS

The Fairfax County economy is now performing at historically high levels and rates surpassing previous peaks registered in 2001. This performance is seen in the track of the Coincident Index, its twelve-month moving average, job growth and other labor market indicators. The Coincident Index has increased on a monthly over-the-year basis for nine consecutive months with May's gain of 7.9 percent (along with March) being its largest of the current business cycle.

The underlying strength of the County's economy continues to be its ability to generate new jobs. For the twelve-month period ending in May, the County is estimated to have added 27,924 new jobs accounting for 35 percent of the Washington area gain. Unemployment has fallen below 2 percent and initial claims for unemployment insurance, down almost 43 percent from May 2003, have reached near historic lows. Employment rates among County residents are increasing faster than the resident work force is growing, resulting in increasing dependency on commuters to fill newly created jobs.

Consumer spending continued to expand in spite of higher energy costs and inflationary pressures that at the national level have recently undercut retail spending. Still, with consumer confidence in the Washington region already the highest in the nation and still improving and job growth generating additional disposable income, retail sales would be expected to be rising. As measured by sales tax revenues, sales in Fairfax County were higher in May than in April (7.6%) and were up sharply from May 2003 (17.2%).



Source: Center for Regional Analysis, George Mason University

Several indicators were weaker in May but still show gains for the year. Transient occupancy tax revenues, which reflect hotel occupancy and the general health of the visitor industry, were down in May from April, but are 6.6 percent higher than a year ago. Similarly, residential building permits fell in May but compared to May 2003, are up 166 percent. These month-to-month variations reflect short-term factors (weather, holidays, special events) and should not be misinterpreted as trends. Year-to-date, all economic indicators for the County are performing better than for the same period in 2003. This upward trend confirms the direction of the expansion and its continuing acceleration.

NEAR-TERM OUTLOOK

The Leading Index is designed to forecast the County's economic future nine to twelve months in advance. Even though the Leading Index was slightly lower in May than in April, it continues to track higher on a monthly over-the-year basis. Its strength over the last six months has been relatively uniform, averaging a gain of 4.1 percent; this rate compares quite favorable to the average gain of 0.95 percent sustained over the preceding seven months (May 2003 - November 2003). This acceleration

in the County's Leading Index portends continuing expansion for the economy over the remainder of this year.

The continuing strength of the forecast draws from the large numbers of new jobs added in the County, the income and output gains these jobs represent, and the increased consumer spending potential of this income growth. As indicated above, the County has registered strong gains in all facets of its economy. However, there are signs presently that the pace of expansion will likely slow over the summer months. Early June data at the national level show retail sales decreasing and job growth slowing. This slowing reflects renewed caution of both businesses and consumers in response to higher energy prices and concerns about higher future interest rates and inflation.

Additionally, consumer confidence that has been on the rise could be weakened by campaign rhetoric in coming months. However, at the local level, the economy's fundamentals and momentum would appear largely immune to the effects of this national debate. Consequently, while some moderation in the County's current rapid growth rate could occur over the summer, these trends should remain strong well into next year.

Fairfax County, Virginia Economic Indicators Current and Previous Months

Economic Indicator	Estimates			Percent Change	
	May-04 Prelim.	Apr-04 Final	May-03 Final	Apr-04 to May-04	May-03 to May-04
Fairfax County Business Cycle Indicators					
Coincident Index (1987 = 100)	137.34	137.13	127.29	0.15	7.90
Leading Index (1987 = 100)	107.73	108.12	104.19	-0.36	3.40
Fairfax County Coincident Index Components					
Estimated Total Wage & Salary Employment (Seasonally Adjusted)	627,427	625,570	599,503	0.30	4.66
<i>Estimated Total Wage & Salary Employment (Unadjusted)</i>	<i>628,161</i>	<i>620,384</i>	<i>600,204</i>	<i>1.25</i>	<i>4.66</i>
Transient Occupancy Tax (\$'000='87, Smoothed, Seasonally Adjusted)	355	406	333	-12.62	6.62
<i>Transient Occupancy Tax (\$'000=Current, Smoothed Only)</i>	<i>602</i>	<i>642</i>	<i>549</i>	<i>-6.29</i>	<i>9.70</i>
Sales Tax Receipts (\$'000='87, Seasonally Adjusted)	9,145	8,501	7,842	7.58	16.63
<i>Sales Tax Receipts (\$'000=Current, Unadjusted)</i>	<i>12,029</i>	<i>10,827</i>	<i>10,265</i>	<i>11.10</i>	<i>17.18</i>
South Atlantic Consumer Confidence	122.6	114.5	81.1	7.07	51.17
Fairfax County Leading Index Components					
New Automobile Registrations (Seasonally Adjusted)	5,553	5,483	4,899	1.29	13.35
<i>Automobile Registrations (Unadjusted)</i>	<i>6,130</i>	<i>6,218</i>	<i>5,408</i>	<i>-1.42</i>	<i>13.35</i>
Initial Unemployment Claims (Seasonally Adjusted)	962	1,054	1,678	-8.75	-42.68
<i>Initial Unemployment Claims (Unadjusted)</i>	<i>881</i>	<i>1,044</i>	<i>1,537</i>	<i>-15.61</i>	<i>-42.68</i>
<i>South Atlantic Consumer Expectations (Unadjusted)</i>	<i>100.0</i>	<i>95.3</i>	<i>102.5</i>	<i>4.93</i>	<i>-2.44</i>
Residential Building Permits (Number of Units, Seasonally Adjusted)	873	1,148	328	-23.93	166.06
<i>Residential Building Permits (Number of Units, Unadjusted)</i>	<i>642</i>	<i>844</i>	<i>346</i>	<i>-23.93</i>	<i>85.55</i>
Residential Building Permit Value (\$'000='87, Seasonally Adjusted)	34,942	51,676	28,206	-32.38	23.88
<i>Residential Building Permit Value (\$=Current, Unadjusted)</i>	<i>48,586</i>	<i>71,739</i>	<i>50,894</i>	<i>-32.27</i>	<i>-4.53</i>
Fairfax County Labor Force (Rebenchmarked)					
Total Labor Force (Seasonally Adjusted)	584,050	584,037	563,146	0.00	3.71
<i>Total Labor Force (Unadjusted)</i>	<i>586,375</i>	<i>583,103</i>	<i>565,387</i>	<i>0.56</i>	<i>3.71</i>
Employed Labor Force (Seasonally Adjusted)	572,967	572,266	548,522	0.12	4.46
<i>Employed Labor Force (Unadjusted)</i>	<i>575,139</i>	<i>572,584</i>	<i>550,602</i>	<i>0.45</i>	<i>4.46</i>
Unemployed Labor Force (Seasonally Adjusted)	11,084	11,771	14,623	-5.84	-24.20
<i>Unemployed Labor Force (Unadjusted)</i>	<i>11,236</i>	<i>10,519</i>	<i>14,785</i>	<i>6.82</i>	<i>-24.00</i>
Unemployment Rate (Percent, Seasonally Adjusted)	1.90	2.02	2.60	--	--
<i>Unemployment Rate (Percent, Unadjusted)</i>	<i>1.92</i>	<i>1.80</i>	<i>2.62</i>	<i>--</i>	<i>--</i>

Notes: Where available, seasonally adjusted estimates are used in the indices. In addition, those expressed in dollar value (Building Permit Value, Transient Occupancy Tax, and Sales Tax) are expressed in constant 1987 dollars. Initial Claims are inverted prior to inclusion in the Leading Index; that is, an increase in claims results in a decrease in the index and visa versa. Because of its quarterly collection schedule, the Transient Occupancy Tax is smoothed. Unadjusted data (*italics*) and Fairfax County Labor Force data are not included in either index, but are shown for informational purposes. All percent changes are calculated from unrounded data.

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We are on the web at:
www.co.fairfax.va.us/comm/economic/economic.htm

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